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A Report to the Montana Legislature

Financial-Related Audit

The University of Montana (All Campuses)

For the Two Fiscal Years Ended June 30, 2007

October 2007

Legislative Audit Division

07-12

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Angie Grove

October 2007

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-related audit report of The University of Montana (All Campuses) for the two fiscal years ended June 30, 2007. A financial-related audit is a component of the biennial financial-compliance audit. In these audits, the financial-related and financial audits are combined for a two-year period to constitute the financial-compliance audit. We issue a financial audit report on the university's consolidated financial statements annually. We issue a financial-related audit report every other year. The fiscal year 2005-06 financial audit of The University of Montana's consolidated financial statements was issued in December 2006. The financial audit for fiscal year 2006-07 will be issued in December 2007.

This audit report includes five recommendations related to inventory controls, controls over grant expenses, corporate equipment, sole source contracting, and following trade-out policy.

We thank the president and The University staff for their assistance and cooperation during the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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	Victoria Glass	Director of Financial Aid

For further information on The University of Montana (All Campuses) contact:

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REPORT SUMMARY

The University of Montana (All Campuses)

We performed a financial-related audit of The University of Montana (All Campuses) for the two fiscal years ended June 30, 2007. The previous report for the two fiscal years ended June 30, 2005, contained two recommendations. The university implemented both recommendations.

This report contains five recommendations directed to the university. Our recommendations address inventory controls, controls over federal grant expenses, corporate equipment, sole source contracting, and athletic trade-out agreements.

The listing below serves as a means of summarizing the recommendations contained in the report, the university's response thereto, and a reference to the supporting comments.

Recommendation #1
We recommend The University of Montana complete timely inventory counts and reconciliations as required by state policy. 8

Recommendation #2
We recommend The University of Montana improve documentation procedures to ensure it is following established controls relating to Research and Development grants. 9

Recommendation #3
We recommend The University of Montana put the agreement related to the welding program in writing, and if applicable, record the activity on the accounting records..... 10

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We recommend The University of Montana follow state and university policy related to sole source contracting. 11

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Chapter I — Introduction

Audit and Objectives

We performed a financial-related audit of The University of Montana (All Campuses) for the two fiscal years ended June 30, 2007. The objectives of the audit were to:

1. Determine the university's compliance with state laws and regulations.
2. Determine the university's compliance with federal regulations applicable to Student Financial Aid and Research and Development federal programs, including the implementation of internal control over compliance.
3. Provide recommendations for improvement in management and internal controls.
4. Determine the implementation status of prior audit recommendations.

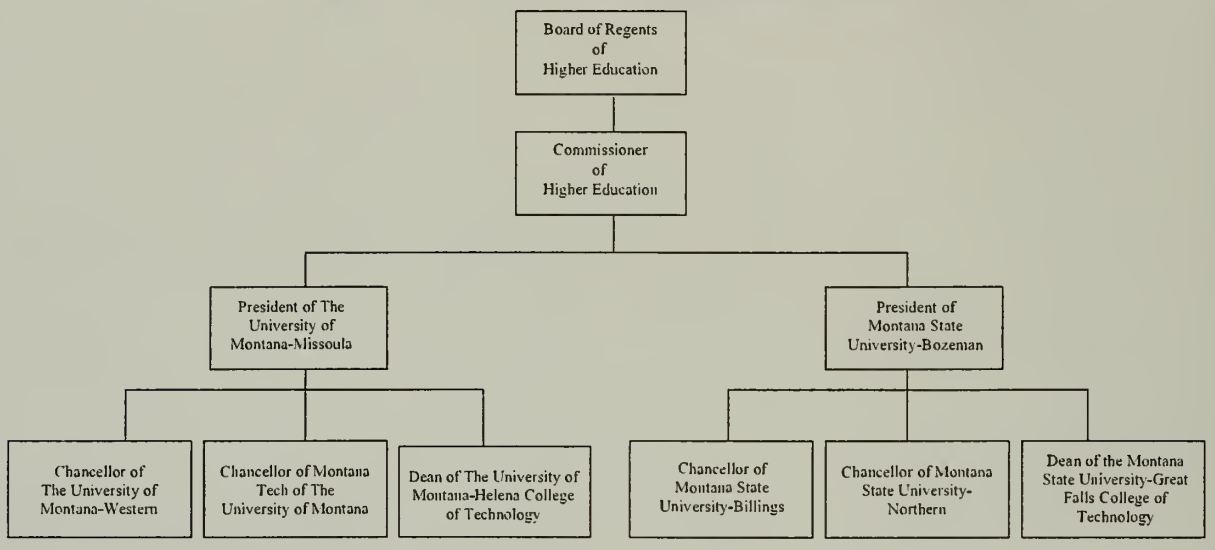
We audited fiscal year 2005-06 consolidated financial statements of The University of Montana and issued a separate report (06-10) in December 2006. The fiscal year 2006-07 consolidated financial statements will be audited by our office and issued in a separate report (07-10) in December 2007.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation. Other areas of concern deemed not to have a significant effect on the successful operation of university programs are not specifically included in the report, but have been discussed with management.

Background

The Board of Regents of Higher Education approved the current Montana University System structure in January 1994. The following chart illustrates the organization of the Montana University System.

Figure 1
Montana University System Organizational Chart



Source: Compiled by the Legislative Audit Division.

The University of Montana consists of four campuses:

- The University of Montana-Missoula is located in Missoula. The Forestry Conservation Station is associated with this campus.
- Montana Tech of The University of Montana is located in Butte, which includes the Bureau of Mines.
- The University of Montana-Western is located in Dillon.
- The University of Montana-Helena College of Technology is located in Helena.

All campuses are accredited by the Commission on Colleges of the Northwest Association of Schools and Colleges. The four campuses of The University of Montana provide a diversity of undergraduate and graduate academic and two-year vocational/technical programs to students.

In fiscal year 2006-07, The University of Montana had 3,370 full-time equivalent (FTE) employees. The following table shows fiscal year 2006-07 actual employee FTE by campus and type.

Table 1
The University of Montana Actual Full-Time Equivalent Employees
Fiscal Year 2006-07

Agency	Contract Faculty	Contract Administrative	Contract Professional	Classified	Graduate Assistants	Part-Time & Other*	Total
The University of Montana-Missoula	769.46	67.70	198.63	1,088.19	164.14	321.02	2,609.14
Montana Tech of The University of Montana	141.00	8.99	84.40	121.86	15.37	44.00	415.62
The University of Montana-Western	71.99	10.00	20.79	76.08	-	30.53	209.39
The University of Montana-Helena College of Technology	35.00	4.00	7.28	25.25	-	19.96	91.49
Bureau of Mines	-	1.00	18.18	11.55	-	1.53	32.26
Forestry Conservation Station	8.77	0.36	0.80	1.90	0.14	0.13	12.10
Total	1,026.22	92.05	330.08	1,324.83	179.65	417.17	3,370.00

*This category includes permanent part-time non-faculty, non-classified employees and temporary employees.

Source: Compiled by the Office of the Commissioner of Higher Education.

The following table shows The University of Montana student FTE enrollments for fiscal year 2006-07. The average student FTE for the entire University of Montana system was 16,066.

Table 2
The University of Montana Student FTE
Semester Average for Fiscal Year 2007

The University of Montana-Missoula	
Undergraduate Resident	6,846
Graduate Resident	1,140
Resident-College of Technology	1,033
Total Residents	**9,019**
Undergraduate Nonresident	1,868
Graduate Nonresident	551
Nonresident-College of Technology	57
Western Undergraduate Exchange Program-UM Missoula	637
Western Undergraduate Exchange Program-College of Technology	8
Total Nonresidents	**3,121**
TOTAL THE UNIVERSITY OF MONTANA-MISSOULA	**12,140**
Montana Tech of The University of Montana	
Undergraduate Resident	1,405
Graduate Resident	58
Resident-College of Technology	288
Total Residents	**1,751**
Undergraduate Nonresident	156
Graduate Nonresident	28
Nonresident-College of Technology	13
Western Undergraduate Exchange Program-UM Tech	137
Western Undergraduate Exchange Program-College of Technology	4
Total Nonresidents	**338**
TOTAL MONTANA TECH OF THE UNIVERSITY OF MONTANA	**2,089**
The University of Montana-Western	
Undergraduate Resident	884
Undergraduate Nonresident	52
Western Undergraduate Exchange Program	182
TOTAL THE UNIVERSITY OF MONTANA-WESTERN	**1,118**
The University of Montana-Helena College of Technology	
Resident	699
Nonresident	9
Western Undergraduate Exchange Program	11
TOTAL THE UNIVERSITY OF MONTANA-HELENA COLLEGE OF TECHNOLOGY	**719**
Total UM Resident	**12,353**
Total UM Nonresident	**2,734**
Total UM Western Undergraduate Exchange Program	**979**
Total for The University of Montana	**16,066**

Source: Compiled by the Office of the Commissioner of Higher Education

The University of Montana Funding

The overall level of state support for the Montana University System is determined by the Montana legislature. The legislature appropriates state funds, comprised of general fund and six-mill levy revenues, in a lump sum appropriation for the educational units and all other higher education programs except the research and public service agencies, community colleges, and tribal college assistance programs. The Board of Regents then allocates the lump sum appropriation to the various programs and educational units. Personnel from the Office of the Commissioner of Higher Education indicate the Board of Regents' formula that allocates state funds to the educational units is based upon resident enrollment, an analysis of faculty salaries in states with similar per capita income, the academic program offerings of the university, the necessary support expenditures, regent priorities and the amount of state funds available.

The University of Montana-Missoula

The University of Montana-Missoula was established in 1893 in Missoula as a comprehensive university. The campus offers four-year undergraduate programs along with masters and doctoral graduate programs. It includes professional schools and significant research activities. The campus is the center of liberal arts education in the Montana University System and operates the only law school in the system. Other schools include Business Administration, Education, Fine Arts, Forestry and Conservation, Health Professions and Biomedical Sciences, Continuing Education, Honors, Graduate, and Journalism. In addition, the campus includes a two-year college of technology, which provides a broad range of technical and occupational education and training courses. College of technology students receive either a certificate of completion or a two-year degree upon completion of a program.

Montana Tech of the University of Montana

Montana Tech of The University of Montana was established in 1893 in Butte as the Montana School of Mines. It provides a variety of four-year and graduate programs with a focus on mineral, geological, environmental, petroleum, mining, and other engineering and science programs. It also includes a college of technology, which provides core education courses and two-year degrees in various occupational and technical programs.

The University of Montana-Western

The University of Montana-Western was established in 1893 in Dillon as the state's Normal School for teacher education. It now provides undergraduate degrees in a number of liberal arts, professional, and pre-professional areas using a unique scheduling system in which students take one class at a time.

The University of Montana-Helena College of Technology

The University of Montana-Helena College of Technology was established in 1939 in Helena as a Vocational-Technical School. It is a two-year institution of higher education. It offers an Associate of Science or Arts Degree in general transfer for students who

want to acquire a core of coursework transferable to university system baccalaureate programs throughout the state. It also offers a variety of occupational, technical, and training specialties, including accounting, construction, computer, electronics and welding technologies, and practical nursing. Students enrolled in these programs receive either a certificate of completion or a two-year degree.

Prior Audit Recommendations

Our office performed a prior financial-related audit of The University of Montana (All Campuses) for the two fiscal years ended June 30, 2005. The university concurred with and implemented the two recommendations contained in the report.

Chapter II — Findings and Recommendations

Inventory Controls Over Artwork and Equipment

Montana Tech of The University of Montana has not completed inventory counts in accordance with state policy and The University of Montana-Missoula has not implemented controls to update inventory records.

State policy requires a count of assets valued over $5,000 every two years. Based on the results of the count, asset amounts should be updated on the accounting records.

Montana Tech of The University of Montana

Montana Tech of The University of Montana has not performed an inventory of assets since June 2004. During our fiscal year 2005 financial-related audit one department at the campus was unable to locate approximately $332,000 worth of equipment that was recorded on the accounting records. No effort to locate these missing items occurred until we asked about it in May 2007.

University personnel stated the individual in charge of doing inventory counts no longer works at the university. Another individual took over the duties, and they are in the process of updating inventory counts. At the end of fiscal year 2007, inventory counts have been started.

The University of Montana-Missoula

The University of Montana-Missoula museum has a list of artwork that cannot be located. Personnel were unable to reconcile the museum list with the accounting records.When we brought this to university personnel's attention they reconciled the museum list and the accounting records.

We also found an instance where artwork valued at $30,500 was recorded on the university's accounting records, however, the university had not received the artwork and the individuals who owned the collection had not yet decided to donate the collection. The university foundation sent a memo related to the donated artwork stating the university would be receiving the items. However, the foundation did not let the university know the items had not been received.

Equipment and artwork are high dollar items and susceptible to theft. It is important to do inventory counts and follow policy to prevent theft and ensure accounting records are accurate. Unless a complete inventory and reconciliation are done the university does not know whether or not items are missing.

Recommendation #1

We recommend The University of Montana complete timely inventory counts and reconciliations as required by state policy.

Grant Expenses

The university's controls over tracking grant activity are not working as designed.

The federal government provides regulations for types of expenses that may or may not be charged to Research and Development grants. Regulations also give guidelines for matching costs and timing of expenses. University accountants are responsible for knowing the federal regulations and keeping documentation for expenses charged to the grants. University personnel have developed a control system making grant accountants responsible for reviewing reports that list expenses charged to the grants and determining if the charges comply with federal regulations.

Although we observed evidence that reports were reviewed by the grant accountants; we were unable to determine if any costs charged to grants were marked for follow-up, and if so what the results were. We reviewed support in 20 grant files for expenses at the department level, and found the following instances where grant requirements were not followed or documentation was not adequate to determine compliance.

- A federal grant was charged for relocation costs for a foreign student. The initial charges were valid; however, the individual did not stay for an entire year as required by federal regulations. The university paid $1,690 for relocation costs that should have been reimbursed. On the report the grant accountants reviewed, the expense was listed under recruiting costs. The recruiting costs were budgeted for background checks of potential employees. We found no evidence of questioning this expense and the money was not reimbursed to the federal government as required.
- Federal regulations require travel costs be paid in accordance with state and university policy. We found instances where travel claims were not paid in accordance with policy. The university overpaid $866 of travel expenses. In each of the three cases, federal grants were charged for the unallowable expenses.
- Budgets are developed for each specific Research and Development grant based on grant requirements. The reports the accountants review to determine reasonableness and allowability of charges include budget information. In one instance we found the purchase of clothing charged to the travel budget instead of the proper budget line. No documentation exists that this cost was questioned and the total purchase price was over the limit set for clothing.
- Grant accountants are responsible for notifying individuals 60 days before a grant ends to ensure expenses are reported and complete before the grant ends.

We tested nine notifications and found three of the nine were not timely. The notifications were significantly less than the 60-day requirement.

- Final reports and a final review of expenses charged to a grant are a part of the control process. We tested 10 reports and found that in one instance there was no documentation that a final report was sent and no documentation a final expense report was reviewed.
- One grant we reviewed pays expenses for work done at another university. Most expenses are paid as they are incurred, however, at the end of the month the other university sends a bill which does not give a detailed list of expenses being claimed. There was no documentation so the grant accountant could not determine if expenses were legitimate.
- One grant had a subcontract with a college. At the end of the grant period the grant accountants are required to review expenses before the grant ends to ensure they are charged in the appropriate period. We found expenses of $3,612 charged and paid after the prime grant period had ended. No documentation existed that the activity was questioned.
- Individuals at the university department level are responsible for tracking any matching costs. Matching costs are state dollars used to match federal funding. We reviewed one grant which required match. The department was unable to provide adequate documentation as to how they met the requirement.

University personnel agreed that documentation in files needs improvement and are currently working on improvements to the process. Some of the expenses appear to be allowable on the reviewed reports, but it is still the department's responsibility to ensure they are complying. For these reasons we believe it is important for the grant accountants and department personnel to improve documentation over expenses that are questionable.

RECOMMENDATION #2

We recommend The University of Montana improve documentation procedures to ensure it is following established controls relating to Research and Development grants.

Corporate Equipment

The University of Montana-Helena College of Technology does not have a written agreement related to equipment received and training provided to an outside corporation.

The University of Montana-Helena College of Technology receives donated equipment to use in its welding program. In return, the college serves as a training facility for the corporation. No written agreement exists covering this arrangement, and the equipment and the training costs are not recorded in the accounting records.

State law requires all activity be recorded on financial records. Good business practices require the arrangement be in writing to clearly outline each party's responsibilities and expectations. Verbal contracts are not enforceable in court if they exceed $500. Failure to record this type of activity on the accounting records, if applicable, would result in unrecorded gifts, and an understatement of revenues and expenses.

University personnel stated the arrangement has been in place for a number of years. They were not exactly sure of the value of the donated equipment, and the donor may come and take the assets anytime. They do not believe the assets belong to the university. A written agreement specifying responsibilities would benefit both parties in case and would clear up any question about how or if the activity should be recorded on the accounting records.

RECOMMENDATION #3

We recommend The University of Montana put the agreement related to the welding program in writing and, if applicable, record the activity on the accounting records.

Sole Source Contracting

The university did not follow policy when granting a sole source contract.

University policy and state procurement policy require sole source justification be submitted and approved prior to a limited solicitation process. Sole source procurement is not permissible unless a required item is available only from a single vendor. Sole source contracting takes place without the benefit of competition, and agencies are advised in policy to be extremely reluctant to use sole source contracting. It may lead to paying more than necessary for services. We found the instance discussed below in which justification for sole source purchasing was not done in accordance with either state or university policy.

We found an instance where a contract was entered into by a university department without using the required sole source justification form. The contract was procured for the same service that other vendors had already performed. Department personnel were not satisfied with the results, so they decided to contract with another party for $14,350. We found no evidence that the department solicited viable bids or justified that the contractor chosen was the only vendor available to do the work.

University personnel who issued this contract were aware of the policies, but in this situation did not follow them. The university should ensure employees follow policy related to contracting to ensure they comply with state and university policy.

RECOMMENDATION #4

We recommend The University of Montana follow state and university policy related to sole source contracting.

Athletic Trade-Out Agreements

The university is not following its policy related to athletic trade-out agreements.

A trade-out is the acquisition of goods or services through trade or exchange of property or performance of services. Athletic department trade-outs at the university involve corporate, scholarship association membership, and ticket trade-outs. The university developed a policy to ensure trade-outs are handled consistently and activity is appropriately recorded on the accounting records. The policy requires detailed written agreements with vendors. The policy further specifies provisions as to when the agreements need to be made, what is contained in the agreement, and the responsibilities of the parties involved.

We tested three trade-out agreements to determine if the athletic department trade-out policy was being followed. We noted the following instances of non-compliance with the policy:

Table 3
Trade-Out Agreements

Trade-out Agreements	Items noted
Trade-outs should be negotiated and finalized in January or early February.	In two instances they were not finalized until June and July.
Ticket agreements must be returned fully signed no later than June 15.	One agreement was signed June 22.
All contracts must have a designated manager, who is responsible for day-to-day utilization.	None of the agreements tested had designated managers.
Trade-outs shall include the method that the vendor plans to use to determine the value of the goods or services.	None of the agreements had documentation to show compliance.
Lodging trade-outs should be calculated using the Montana in-state rate.	Per review of one lodging trade-out the current in-state rate was not used.
All trade-out for goods and services shall be at a minimum valued at 135% of the cash value.	Many items were not valued, so we were unable to determine if this was met.
Vendors must agree to provide itemized receipts.	None of the agreements tested met this requirement.
All contracts should include details and be signed by all parties.	In one instance we noted not all parties had signed the contract.
No alcoholic beverages are to be charged against trade.	One agreement included alcoholic beverages.
One agreement was to provide a football banquet.	The university was charged and paid for the banquet.

Source: Compiled by the Legislative Audit Division.

Omissions in the agreements have led to increased difficulties in monitoring for compliance and increased instances of non-compliance. Trade-out managers and accounting staff can not enforce policy if the signed agreements do not address all policy requirements.

This is a new policy developed by the university. Personnel acknowledge the need for improvement and the need for additional training. Many of the issues could be resolved with more detailed agreements and communication between management and the employees responsible for following the policy.

RECOMMENDATION #5

We recommend The University of Montana follow university trade-out agreement policy.

The University of Montana (All Campuses)

University Response

The University of
Montana

Office of the President
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28 September 2007

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Mr. Scott A. Seacat
Legislative Auditor
Legislative Audit Division
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P. O. Box 201705
Helena, MT 59620-1705

Dear Mr. Seacat:

We thank the Legislative Audit staff for their good work on The University of Montana Financial-Related Audit for the two years ended 30 June 2007. In addition, we appreciate the cooperative efforts made by the audit team and thank those involved for their assistance. We will continue to make improvements and strive for assuring accountability and compliance in all aspects of our operations.

Sincerely,

George M. Dennison
President

GMD/as
Denlet3587

Attachment

c: R. Duringer, Vice President for Administration and Finance
S. Stearns, Commissioner of Higher Education

The University of Montana

Response to Legislative Audit Division
Financial Related Audit
For the Two Fiscal Years Ended 30 June 2006
September 2007

RECOMMENDATION #1
WE RECOMMEND THE UNIVERSITY OF MONTANA COMPLETE TIMELY INVENTORY COUNTS AND RECONCILIATIONS AS REQUIRED BY STATE POLICY.

The University concurs with the recommendation. The University will coordinate with Museum personnel to ensure applicable assets are recorded in the financial records. Accounting Services employees will revise procedures by 31 December 2007 to ensure the existence of donated items prior to recording them in the accounting records.

Montana Tech personnel completed the physical inventory of the Petroleum Department in June 2007 with adjustments made to the accounting records. An inventory schedule has been developed and all fixed asset inventories will be completed by December 2007.

RECOMMENDATION #2
WE RECOMMEND THE UNIVERSITY OF MONTANA IMPROVE DOCUMENTATION PROCEDURES TO ENSURE IT IS FOLLOWING ESTABLISHED CONTROLS RELATING TO RESEARCH AND DEVELOPMENT GRANTS.

The University concurs with the recommendation. The University will train all research personnel on controls and documentation standards. Mandatory training of both administrative personnel and principal investigators will be completed by May 2008.

RECOMMENDATION #3
WE RECOMMEND THE UNIVERISTY OF MONTANA PUT THE AGREEMENT RELATING TO THE WELDING PROGRAM IN WRITING, AND IF APPLICABLE, RECORD THE ACTIVITY ON THE ACCOUNTING RECORDS.

The University concurs with the recommendation. University personnel will work with University Legal Counsel to document the relationship with the Welding Program in Helena. Once a contractual agreement has been implemented, accounting personnel will review the document and determine the appropriate fiscal reporting for the activity. The contractual agreement will be completed by 2 November 2007, with any applicable accounting recorded by 31 December 2007.

RECOMMENDATION #4
WE RECOMMEND THE UNIVERSITY OF MONTANA FOLLOW STATE AND UNIVERSITY POLICY RELATED TO SOLE SOURCE CONTRACTING.

The University concurs with the recommendation. The University will conduct Sole Source campus training during FY 08. The Department involved will be required to complete applicable sole source documentation by 1 October 2007.

RECOMMENDATION #5
WE RECOMMEND THE UNIVERSITY OF MONTANA FOLLOW UNIVERSITY TRADE-OUT AGREEMENT POLICY.

The University concurs with the recommendation. University personnel will review and refine the policy where applicable. Athletic Department employees will be reminded of the procedures relating to trade-outs and their need to follow those procedures. Policy revisions will be completed by 31 January 2008 with reminders of the procedures at that time.